

Message Text

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ACTION EUR-12

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FM AMEMBASSY BONN

TO SECSTATE WASHDC IMMEDIATE 4709

INFO AMEMBASSY PARIS

AMEMBASSY LONDON

AMEMBASSY BRUSSELS

AMEMBASSY ROME

AMEMBASSY TOKYO

C O N F I D E N T I A L SECTION 01 OF 02 BONN 00777

E.O. 11652: GDS

TAGS: OVIP (MONDALE, WAITER F.), EGEN, PFOR, TECH, GW

SUBJECT: VISIT OF VICE PRESIDENT-ELECT MONDALE -
ECONOMIC AND NUCLEAR POLICY ISSUES

REF: BONN 0775

1. SUMMARY: EMBASSY BELIEVES THAT FOUR OF THE ISSUES COVERED IN REFTEL WILL BE OF SPECIAL CONCERN TO THE CHANCELLOR. THREE OF THESE ISSUES, THE GLOBAL ECONOMIC SITUATION, INTERNATIONAL ECONOMIC POLICY, AND THE NORTH/SOUTH DIAIOGUE, WILL NO DOUBT BE CLOSELY CONNECTED WITH FORTHCOMING ECONOMIC SUMMIT. THE FOURTH ISSUE INVOLVES ONE OF OUR POTENTIALLY MOST DIFFICULT BILATERAL ISSUES, NUCLEAR EXPORT POLICY. END SUMMARY.

2. THE GLOBAL ECONOMIC SITUATION:

THE CHANCELLOR IS VERY MUCH PREOCCUPIED WITH GLOBAL ECONOMIC DEVELOPMENTS. WHILE THE FRG HAS NOT SUFFERED
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AS MUCH AS MOST COUNTRIES FROM THE GLOBAL RECESSION AND HAS NO BALANCE OF PAYMENTS PROBLEMS HE HAS BEEN INCREASINGLY UNDER FIRE FOR HIS INABILITY TO REDUCE THE LEVEL OF UNEMPLOYMENT IN HIS OWN COUNTRY. HE HAS BEEN ANXIOUS, THEREFORE, TO SEE WHAT THE DOMESTIC ECONOMIC POLICY OF THE NEW AMERICAN PRESIDENT WILL BE, HOPING THAT IT MIGHT EASE SOME OF HIS OWN DOMESTIC

PROBLEMS, FEARING THAT IT WON'T, AND AWARE OF PRESSURES ON HIM TO TAKE EXPANSIVE MEASURES IN THE GERMAN ECONOMY TO MAKE A CONTRIBUTION TO RECOVERY IN NEIGHBORING EUROPEAN COUNTRIES AND THROUGHOUT THE WORLD. HOWEVER, AS A RESULT OF HIS OWN INCLINATIONS AS WELL AS PRESSURES FROM HIS MORE CONSERVATIVE COALITION COLLEAGUES AND THE OPPOSITION, THE CHANCELLOR IS WARY OF ADOPTING AN EXPANSIVE POLICY OFFERING A THREAT OF RESURGENCE OF INFLATION.

3. INTERNATIONAL ECONOMIC POLICY:

NOT UNRELATED TO THE CHANCELLOR'S CONCERNS WITH THE GLOBAL ECONOMIC SITUATION IS THE INHERENT THREAT OF AUTARCHY TO OUR OPEN GLOBAL ECONOMIC SYSTEM. ONE OF THE MOST IMPORTANT FOREIGN ECONOMIC POLICY GOALS OF THE FRG IS TO MAINTAIN A LIBERAL WORLD TRADING ORDER. THE GERMAN ECONOMY IS HEAVILY DEPENDENT ON EXPORTS, WHICH ACCOUNTED FOR ABOUT 22 PERCENT OF GNP IN 1976, AND GERMAN POLICYMAKERS ARE COUNTING ON STRONG EXPORT DEMAND AS AN IMPORTANT ELEMENT IN MAINTAINING ECONOMIC GROWTH IN 1977. GERMAN OFFICIALS HAVE, THEREFORE, BEEN KEEPING A CLOSE EYE ON POLICY DEVELOPMENTS IN THE U.S., AS WELL AS IN THE UK AND ELSEWHERE WITHIN THE EC. THEY ARE WELL AWARE THAT AN INCREASE IN BARRIERS TO TRADE AND INVESTMENT WILL BE DETRIMENTAL NOT ONLY TO THE GERMAN ECONOMY, BUT ALSO TO OTHER MAJOR ECONOMIES WITH WHICH THE GERMAN ECONOMY IS CLOSELY LINKED. IN THEIR VIEW, 1977 WILL BE A KEY
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YEAR FOR TRADE POLICY, WITH THE MTN NOW IN THE NEGOTIATING STAGE, AND THEY ARE LIKELY TO STRESS HOW IMPORTANT IT IS FOR MAJOR TRADING COUNTRIES TO TAKE SPECIAL EFFORTS TO COMBAT PROTECTIONIST FORCES.

4. NORTH/SOUTH DIALOGUE:

THE SAME CONCERNS AND UNCERTAINTY SURROUNDING U.S. DOMESTIC ECONOMIC POLICY CHARACTERIZE THE CHANCELLOR'S ATTITUDE TOWARD THE NORTH/SOUTH DIALOGUE. WHILE IN THE RECENT GOVERNMENT DECLARATION AND OTHER STATEMENTS, THE CHANCELLOR HAS MADE CLEAR THE NEED FOR GERMANY TO MAKE CONTRIBUTIONS TO SUPPORT THE ECONOMIES OF NEIGHBORING AND DEVELOPING NATIONS, THE FRG HAS VIEWS CLOSE TO EXISTING U.S. POLICY VIS-A-VIS THE CONFERENCE ON INTERNATIONAL ECONOMIC COOPERATION (CIEC) AND UNCTAD. THIS INVOLVES A RESISTANCE TO COMMODITY AGREEMENTS, COMMON FUNDS, GENERAL DEBT MORATORIA, ETC. THERE ARE, HOWEVER, PRESSURES WITHIN THE FRG IN A MORE

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C O N F I D E N T I A L SECTION 02 OF 02 BONN 00777

LIBERAL DIRECTION, PARTLY TO SEEK COMMON POSITIONS
WITHIN THE EUROPEAN COMMUNITY, AND PARTLY TO ACCOMMODATE
THE THIRD WORLD. BASIC DECISIONS ON THESE
QUESTIONS HAVE BEEN HELD IN ABEYANCE PENDING A CLEAR
IDEA OF THE POLICIES OF THE NEW CARTER ADMINISTRATION.
THE U.S. AND THE FRG HAVE ALSO BEEN DISCUSSING TWO
OTHER PRESSING ISSUES - THE PROPOSED ZIMBABWE DEVELOP-
MENT FUND AND BILATERAL AID TO SELECTED COUNTRIES,
SUCH AS EGYPT. THESE ISSUES ARE NATURALLY NOT
UNRELATED TO THE GLOBAL ECONOMIC CONCERNS OF THE
CHANCELIOR, PARTICULARLY WITH RESPECT TO THE MAGNITUDE
OF THE FRG'S CONTRIBUTION.

5. NUCLEAR ENERGY PROBIEMS:

THE ONE BIIATERAL ISSUE WHICH COULD SERIOUSLY
IRRITATE RELATIONS BETWEEN OUR TWO COUNTRIES IS THE
QUESTION OF NUCLEAR EXPORTS. THIS CONCERN IS MOST
DRAMATICALLY PRESENT IN THE QUESTION OF THE LARGE
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FRG/BRAZIL AGREEMENT WHICH INVOLVES REPROCESSING AND ENRICHMENT FACILITIES, I.E. FULL-CYCLE TECHNOLOGY. THE FRG IS AWARE THAT WE WERE AT NO POINT HAPPY WITH THIS AGREEMENT. THE GERMANS ARE ALSO AWARE THAT WE DID NOT GO THE FULL DISTANCE IN SEEKING TO BLOCK THE TRANSACTION. THEY DO NOT WISH TO LOSE THIS LUCRATIVE CONTRACT AND, INDEED, IN SOME CIRCLES U.S. MOTIVATION IN OBJECTING TO IT IS ATTRIBUTED TO COMMERCIAL CONSIDERATIONS. AT THE SAME TIME, THE GERMANS ARE INCREASINGLY SENSITIVE TO THE IMPACT OF THIS TRANSACTION ON THEIR RELATIONS WITH THE U.S. THEY ARE, OF COURSE, SIGNATORIES OF THE NPT AND HAVE PARTICIPATED IN THE NUCLEAR SUPPLIERS' GROUP, IN IAEA, ETC. WE ALSO HAVE VERY CLOSE BILATERAL CONSULTATIVE ARRANGEMENTS WITH THEM ON NUCLEAR MATTERS. WE WERE ABLE, FOR EXAMPLE, TO WORK OUT A SATISFACTORY SOLUTION TO THE PROBLEM OF REPROCESSING IN THE FRG/IRAN AGREEMENT; WE ARE WORKING ON OTHER PROBLEMS INVOLVING SALES TO PAKISTAN AND INDIA. THE CHANCELLOR, THE GERMAN PUBLIC, AND THE PRESS WILL PRESUME THAT THIS TOPIC WOULD COME UP IN ANY MEETING BETWEEN THE VICE PRESIDENT AND THE CHANCEILOR. THE CHANCELIOR, ON THE OTHER HAND, WOULD CERTAINLY NOT WANT TO HAVE THIS PRICKLY ISSUE AS THE CENTERPIECE OF HIS FIRST CONTACT WITH THE NEW ADMINISTRATION.

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